

"(B) In the case of a bank (as defined in section 104), the computation under subparagraph (A) shall be made by substituting for the amount computed under paragraph (2) (A) or (B) whichever of the following amounts is the lesser:

"(i) An amount which bears the same ratio to the decrease in inadmissible assets as the sum of the equity capital (as defined in section 437 (c)) and the daily borrowed capital (as defined in section 439 (b)), each determined as of the first day of the first taxable year ending after June 30, 1950, bears to the total assets as of the beginning of such day;

"(ii) If paragraph (8) (B) is applicable, the amount computed under paragraph (8) (B) (ii).

"(10) EXCEPTIONS AND LIMITATIONS FOR THE PURPOSE OF PARAGRAPH (9).—For the purpose of paragraph (9)—

"(A) The adjustment to the decrease in inadmissible assets required under subparagraph (B) of paragraph (2) shall not be greater than 25 per centum of the excess of the net capital reduction computed under the first sentence of paragraph (2) (and computed without regard to the percentage limitations in paragraph (4) (C) and (E)) over the net capital reduction computed under such sentence without regard to paragraph (4) (C) and (E).

"(B) The amount determined under paragraph (9) shall not be greater than the excess of the increase in operating assets for the taxable year over the net capital addition (determined without regard to paragraph (9) and determined without regard to the limitation to 75 per centum provided in paragraph (3) (C) and paragraph (4) (C) and (E)). For the purpose of the preceding sentence, the increase in operating assets for the taxable year shall be determined in the same manner as the increase in inadmissible assets for the taxable year is determined under paragraph (5). For the purpose of such determination, the term 'operating assets' means—

"(i) property used in the taxpayer's trade or business within the meaning of section 117 (j) (1) except that such property need not be held more than six months, and

"(ii) stock in trade or other property of a kind which would properly be includible in the inventory of the taxpayer if owned at the close of the taxable year, and property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or business,

except any such assets which constitute inadmissible assets, stock, securities, or intangible property (such intangible property not being limited to the property described in section 441 (i)).

"(C) The amount determined under paragraph (9) shall be subject to reduction to the extent that the Secretary determines that the increase in operating assets is a result, directly or indirectly, of an increase in indebtedness of the taxpayer (other than indebtedness which constitutes borrowed capital)."

Pub. Law 183

-98-

SEC. 508. ELECTION WITH RESPECT TO CERTAIN INADMISSIBLE ASSETS.

(a) **AMENDMENT OF SECTION 440.**—Section 440 (relating to admissible and inadmissible assets) is hereby amended by adding at the end thereof the following new subsection:

“(c) **TREATMENT OF GOVERNMENT OBLIGATIONS AS ADMISSIBLE ASSETS.**—If the taxpayer elects for any taxable year, in accordance with regulations prescribed by the Secretary, to increase its excess profits net income by an amount equal to the amount by which the interest received or accrued during the taxable year on Government obligations exceeds the sum of—

“(1) the amount of interest paid or accrued during such year which is not allowed as a deduction under section 23 (b), and

“(2) the amount of the adjustments required for the taxable year under section 22 (o) (relating to adjustment for certain bond premiums), but not in excess of the amount of interest received or accrued during the taxable year on Government obligations to which such section is applicable,

then for the taxable year for which the election is made the term ‘admissible assets’ shall include Government obligations, and the term ‘inadmissible assets’ shall not include Government obligations. For the purpose of applying section 435 to the taxable year for which the election is made, Government obligations shall not be considered ‘inadmissible assets’ in determining original inadmissible assets or yearly base period capital. As used in this subsection the term ‘Government obligations’ means obligations described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income; but such term shall include only such obligations as in the hands of the taxpayer are property described in section 117 (a) (1) (A). For the purpose of determining the excess profits credit for a taxable year for which the election is made, the excess profits net income under section 433 (b) for any taxable year shall include the amount by which the interest received or accrued during such taxable year on Government obligations exceeds the amount of interest paid or accrued during such year which is not allowed as a deduction under section 23 (b) and, if the taxable year ends after June 30, 1950, the amount with respect to such year described in paragraph (2).”

(b) **AMENDMENT OF SECTION 433 (a) (1).**—Section 433 (a) (relating to adjustments in excess profits net income for the taxable year) is hereby amended by adding the following new subparagraph at the end thereof:

“(S) **Interest on Certain Government Obligations.**—For adjustment in the case of a taxpayer making an election provided in section 440 (c), relating to dealers in certain Government obligations, see section 440 (c).”

(c) **AMENDMENT OF SECTION 433 (b).**—Section 433 (b) (relating to adjustments in excess profits net income for taxable years in base period) is hereby amended by adding at the end thereof the following new paragraph:

“(17) **INTEREST ON CERTAIN GOVERNMENT OBLIGATIONS.**—For adjustment in the case of a taxpayer making an election provided in section 440 (c), relating to dealers in certain Government obligations, see section 440 (c).”

***SEC. 509. ALTERNATIVE AVERAGE BASE PERIOD NET INCOME.**

(a) **AMENDMENT OF SECTION 442.**—Section 442 (relating to abnormalities during the base period) is hereby amended as follows:

(1) By inserting at the end of subsection (a) thereof the following:

"If such taxpayer is also entitled to the benefits of subsection (h), the taxpayer's average base period net income determined under this section shall be the amount computed under subsection (c) or (d), whichever is applicable to the taxpayer, or the amount computed under subsection (h), whichever results in the lesser tax under this subchapter for the taxable year. In the case of any other taxpayer entitled to the benefits of subsection (h), the taxpayer's average base period net income determined under this section shall be the amount computed under subsection (h)."

(2) By striking out "determined under this section" in subsections (c) and (d) thereof each place it occurs and inserting in lieu thereof the following: "computed under this subsection".

(3) By inserting after "subsection (c) (2)" in subsection (e) (1) thereof the following: "and subsection (h)".

(4) By redesignating subsections (h) and (i) thereof as (i) and (j), respectively, and by inserting after subsection (g) thereof the following new subsection:

"(h) **ALTERNATIVE AVERAGE BASE PERIOD NET INCOME.**—

"(1) **ELIGIBILITY REQUIREMENTS.**—A taxpayer which commenced business on or before the first day of its base period shall be entitled to the benefits of this subsection if—

"(A) the aggregate excess profits net income (if any) for the 12 months selected under paragraph (2) (B) is less than 35 per centum of one-half of the aggregate excess profits net income for the 24 months remaining under such paragraph; and

"(B) normal production, output, or operation was interrupted or diminished because of the occurrence, within 12 months preceding (i) the first day of the 12-month period selected under paragraph (2) (B) (i), or (ii) the first day of any period of 6 or more consecutive months selected under paragraph (2) (B) (ii), of events unusual or peculiar in the experience of such taxpayer.

This subsection shall have no application unless the taxpayer has an aggregate excess profits net income for the 24 months remaining under paragraph (2) (B).

"(2) **COMPUTATION.**—If the taxpayer is entitled to the benefits of this subsection, its average base period net income computed under this subsection shall be computed as follows:

"(A) By determining under subsection (b) the period subject to adjustment under this section. For the purposes of subparagraph (B) but not for the purposes of paragraph (1) (B) such period shall be considered a period of 36 consecutive months.

"(B) By selecting from such period whichever of the following 12 months results in the higher remaining aggregate excess profits net income—

"(i) the 12 consecutive months the elimination of which produces the highest remaining aggregate excess profits net income, or

"(ii) the 12 months which remain after retaining the 24 consecutive months which produce the highest remaining aggregate excess profits net income.

"(C) By computing for each of the 12 months selected under subparagraph (B) a substitute excess profits net income computed under subsection (e).

Pub. Law 183

- 100 -

"(D) By computing the sum of—

"(i) the aggregate of the substitute excess profits net income, as determined under subparagraph (C), for the 12 months selected under subparagraph (B), but the amount computed under this clause shall not exceed one-half of the aggregate excess profits net income for the 24 months remaining under subparagraph (B), and

"(ii) the aggregate of the excess profits net income for each of the 24 months remaining under subparagraph (B), computed in the manner provided by the second sentence of section 435 (d) (1).

"(E) By dividing by three the amount ascertained under subparagraph (D).

"(3) AGGREGATE EXCESS PROFITS NET INCOME.—The 'aggregate excess profits net income' for any period shall be computed for the purposes of this subsection in the same manner as under subsection (b)."

(b) TECHNICAL AMENDMENTS.—

(1) Section 435 (f) (3) (relating to capital addition in the base period) is hereby amended by inserting immediately after the words "under section 442 (c) (1)", wherever appearing therein, the following: "or under section 442 (h)".

(2) Section 461 (relating to definitions for purposes of part II) is hereby amended by inserting at the end thereof the following new subsection:

"(g) APPLICATION OF SECTION 442 (h).—For the purpose of this part, the reference to section 442 (c) in any section in this part shall be deemed a reference to section 442 (c) or (h)."

SEC. 510. DEFINITION OF TOTAL ASSETS FOR PURPOSES OF SECTIONS 442-446.

The first sentence of section 442 (f) (relating to definition of total assets) is hereby amended to read as follows: "For the purposes of this section, the taxpayer's total assets for any day shall be determined as of the end of such day and shall be an amount equal to the excess of—

"(1) the sum of the cash and the property (other than cash, inadmissible assets, and loans to members of a controlled group as defined in section 435 (f) (4)) held by the taxpayer in good faith for the purposes of the business, over

"(2) the amount of any indebtedness (other than borrowed capital as defined in section 439 (b) (1)) to a member of a controlled group (as defined in section 435 (g) (6)) which includes the taxpayer."

SEC. 511. AVERAGE BASE PERIOD NET INCOME—CHANGE IN PRODUCTS OR SERVICES.

Section 443 (f) (relating to change in products or services) is hereby amended to read as follows:

"(f) RULES FOR APPLICATION OF SECTION.—

"(1) The benefits of this section shall not be allowed unless the taxpayer makes application therefor in accordance with section 447 (e).

"(2) If after the end of the base period of the taxpayer there was a substantial change in the products produced by the taxpayer, such change shall, for the purpose of subsection (a) (1), be considered to have occurred on the last day of its base period if the taxpayer prior to July 1, 1950, commenced the construction of the facilities for the production of such new product, and if

such construction and the production of such new product is in furtherance of a course of action to which the taxpayer (or a corporation with which the taxpayer has the privilege under section 141 of filing a consolidated return for its first taxable year under this subchapter) was committed prior to the close of the base period by contract with another person, which contract granted a license, franchise, or similar right essential for the production of such new product."

SEC. 512. AVERAGE BASE PERIOD NET INCOME—NEW CORPORATION.

Section 445 (c) (relating to total assets for first three years of new corporation) is hereby amended by adding at the end thereof the following new sentence: "For the purpose of this subsection, the net capital addition or reduction shall be computed without regard to the limitation to 75 per centum provided in section 435 (g) (3) (C) and section 435 (g) (4) (C) and (E)."

SEC. 513. EXCESS PROFITS CREDIT—REGULATED PUBLIC UTILITIES.

Section 448 (c) (3) (relating to regulated public utilities) is hereby amended to read as follows:

"(3) 6 per centum in the case of a corporation engaged as a common carrier (A) in the furnishing or sale of transportation by railroad, if subject to the jurisdiction of the Interstate Commerce Commission, or (B) in the furnishing or sale of transportation of oil or other petroleum products (including shale oil) by pipe line, if subject to the jurisdiction of the Interstate Commerce Commission or if the rates for such furnishing or sale are subject to the jurisdiction of a public service or public utility commission or other similar body of the District of Columbia or of any State."

SEC. 514. CONSOLIDATED RETURNS OF REGULATED PUBLIC UTILITIES.

Section 448 (e) (relating to consolidated returns of regulated public utilities) is hereby amended by adding at the end thereof the following new sentence: "For purposes of filing a consolidated return with its railroad lessee corporation, a railroad lessor corporation described in section 434 (d) (without regard to the requirement of payment of the lessor's taxes by the lessee) shall be considered a corporation described in subsection (c) (3)."

SEC. 515. NONTAXABLE INCOME FROM CERTAIN MINING PROPERTIES.

Section 453 (relating to nontaxable income from exempt excess output) is hereby amended as follows:

(a) By amending the first sentence of subsection (a) (13) thereof to read as follows: "The term 'unit net income' means the amount ascertained by dividing the net income (computed with the allowance for depletion) from the coal, ore, sulphur, potash, metallurgical grade limestone, chemical grade limestone, or timber recovered from the mineral property, or timber block, as the case may be, during the taxable year by the number of units of such mineral or timber recovered from such property in such year."

(b) By inserting immediately after the words "coal mining property" in subsection (b) (2) thereof the following: ", or of a sulphur, potash, metallurgical grade limestone, or chemical grade limestone mineral property,".

(c) By striking out so much of subsection (b) (4) as precedes the second sentence and inserting in lieu thereof the following:

"(4) CERTAIN PROPERTIES NOT IN OPERATION DURING NORMAL PERIOD.—For any taxable year, the nontaxable income from exempt excess output of a metal or coal mining property, of a

sulphur, potash, metallurgical grade limestone, or chemical grade limestone mineral property, of a timber block, or of a natural gas property, which was not in operation during the normal period, shall be an amount equal to one-third of the net income for such taxable year (computed with the allowance for depletion) from such property or timber block, as the case may be."

SEC. 516. TRANSITION FROM WAR PRODUCTION AND INCREASE IN PEACETIME CAPACITY.

(a) IN GENERAL.—Part I of subchapter D of chapter 1 is hereby amended by adding at the end thereof a new section to read as follows:

"SEC. 459. MISCELLANEOUS PROVISIONS.

"(a) AVERAGE BASE PERIOD NET INCOME—TRANSITION FROM WAR PRODUCTION AND INCREASE IN PEACETIME CAPACITY.—In the case of a taxpayer which commenced business before January 1, 1940, and since such date has engaged primarily in manufacturing, the taxpayer's average base period net income determined under this subsection shall be the amount computed under section 435 (e) (2) (G) (i) and (ii) if—

"(1) The adjusted basis of the taxpayer's total facilities (as defined in section 444 (d)) as of the beginning of its base period (when added to the total facilities at such time of all corporations with which the taxpayer has the privilege under section 141 of filing a consolidated return for its first taxable year under this subchapter) did not exceed \$10,000,000;

"(2) The basis (unadjusted) of the taxpayer's total facilities (as defined in section 444 (d)) at the close of its base period was 250 per centum or more of the basis (unadjusted) of its total facilities at the beginning of its base period;

"(3) The percentage of the taxpayer's aggregate gross income which was from contracts with the United States and related sub-contracts was (A) at least 70 per centum for the period comprising all taxable years beginning after December 31, 1941, and ending before January 1, 1946, (B) less than 20 per centum for the period comprising all taxable years ending after December 31, 1945, and before January 1, 1950, and (C) less than 20 per centum for the period comprising all taxable years ending after December 31, 1949, and beginning before July 1, 1950; and

"(4) The average monthly excess profits net income of the taxpayer (computed in the manner provided in section 443 (e)) for—

"(A) the period comprising all taxable years ending with or within the last 24 months of its base period, and

"(B) the last taxable year ending before the first day of its base period,

are each 300 per centum or more of the average monthly excess profits net income (so computed) of the taxpayer for the period comprising all taxable years ending with or within the first 24 months of its base period."

(b) TECHNICAL AMENDMENTS.—Section 435 (c) (relating to determination of average base period net income) is hereby amended as follows:

(1) By inserting immediately after "445 or 446," the following: "or any subsection of section 459,".

(2) By inserting immediately after "or under such section" the following: "or subsection".

SEC. 517. BASE PERIOD CATASTROPHE.

Section 459, as added by section 516 of this Act, is hereby amended by adding after subsection (a) thereof the following new subsection:

"(b) BASE PERIOD CATASTROPHE.—

"(1) ELIGIBILITY REQUIREMENTS.—A taxpayer shall be entitled to the benefits of this subsection only if it was engaged throughout its base period primarily in manufacturing and if—

"(A) the taxpayer suffered during the last thirty-six months of its base period a catastrophe by fire, storm, explosion, or other casualty which destroyed or rendered inoperative a production facility constituting a complete plant or plants having in the hands of the taxpayer immediately prior to the catastrophe an adjusted basis equal to 15 per centum or more of the adjusted basis of all the taxpayer's production facilities at such time;

"(B) as a result of such catastrophe the taxpayer's normal production or operation was substantially interrupted for a period of more than twelve consecutive months; and

"(C) the taxpayer, prior to the end of its base period, replaced such production facility with a production facility which at the end of its base period had in its hands an adjusted basis not less than the adjusted basis immediately prior to the catastrophe of the production facility destroyed or rendered inoperative.

"(2) COMPUTATION.—The taxpayer's base period net income determined under this subsection shall be the amount computed under subparagraph (A) or the amount computed under subparagraph (B), whichever results in the lesser tax under this subchapter for the taxable year for which the tax is being computed:

"(A) The amount computed under section 435 (d) by substituting for the excess profits net income for each month in the taxable year in which the catastrophe described in paragraph (1) occurred an amount equal to the aggregate, divided by the number of months in the base period preceding such taxable year, of the excess profits net income for each month (computed under section 435 (d) (1)) in the base period preceding such taxable year. The average base period net income computed under this subparagraph shall, for the purpose of section 435 (a) (1) (B), be considered an average base period net income determined under section 435 (d).

"(B) The amount computed under section 435 (e) (2) (G) (i) and (ii)."

SEC. 518. CONSOLIDATION OF NEWSPAPERS.

Section 459, as added by section 516 and 517 of this Act, is hereby amended by adding after subsection (b) thereof the following new subsection:

"(c) CONSOLIDATION OF NEWSPAPER OPERATIONS.—In the case of a taxpayer engaged primarily in the newspaper publishing business in its last taxable year ending before July 1, 1950, if—

"(1) After the close of the first half of the base period of the taxpayer and prior to July 1, 1950, the taxpayer consolidated its mechanical, circulation, advertising, and accounting operations in connection with its newspaper publishing business with such operations of another corporation engaged in the newspaper publishing business in the same area; and

"(2) The taxpayer establishes to the satisfaction of the Secretary that, during the period beginning with the consolidation

and ending with the close of the first taxable year beginning after the consolidation, such consolidation resulted in substantial reductions in the amounts which would otherwise have been paid or incurred as expenses in the conduct of the operations described in paragraph (1); and either

“(3) The total deductions of the taxpayer under section 23, computed without regard to section 23 (s) and (bb), for the first taxable year beginning after such consolidation were not in excess of 80 per centum of the average of such deductions for the two taxable years of the taxpayer next preceding the taxable year in which such operations were consolidated; or

“(4) The excess profits net income of the taxpayer, computed as provided in section 433 (b), for the first taxable year of the taxpayer beginning after such consolidation was 125 per centum or more of the amount determined under section 435 (d) (4);

the taxpayer's average base period net income determined under this subsection shall be an amount computed under section 435 (d) plus an amount equal to the excess of the average of the amounts paid or incurred as expenses in the conduct of the operations described in paragraph (1) during the two taxable years of the taxpayer next preceding the taxable year in which such operations were consolidated over such amounts paid or incurred during the first taxable year of the taxpayer beginning after such consolidation. In determining such excess amount proper adjustment shall be made for increase in labor costs and newsprint following such consolidation. Proper adjustment shall also be made for any case in which a taxable year referred to in this subsection is a period of less than twelve months. This subsection shall not be applicable to any taxable year of the taxpayer unless the consolidation described in paragraph (1) was continued throughout such taxable year.”

SEC. 519. TELEVISION BROADCASTING COMPANIES.

Section 459, as added by sections 516 to 518 of this Act, is hereby amended by adding after subsection (c) thereof the following new subsections:

“(d) TELEVISION BROADCASTING COMPANIES.—

“(1) **IN GENERAL.**—In the case of a taxpayer engaged in the business of television broadcasting throughout a period beginning before January 1, 1951, and ending with the close of the taxable year, the taxpayer's average base period net income determined under this subsection shall be the amount computed under paragraph (2) or (3), whichever is applicable.

“(2) **IF ENGAGED IN TELEVISION BROADCASTING AT CLOSE OF BASE PERIOD.**—If the taxpayer was engaged in the business of television broadcasting at the close of its base period, the average base period net income computed under this paragraph shall be computed as follows:

“(A) If the taxpayer was engaged during its base period in any business or businesses other than television broadcasting, by computing the average base period net income under section 435 (d) for such other business or businesses (determined without regard to income, deductions, losses, or other items attributable to the television broadcasting business).

“(B) By multiplying such part of its total assets (as defined in section 442 (f)), for the last day of its base period, as was attributable to the television broadcasting business by—

"(i) the base period rate of return determined under section 447 (c) for the industry classification which includes radio broadcasting, or

"(ii) if the taxpayer was engaged during its base period in the business of radio broadcasting, its individual rate of return computed under paragraph (4), whichever rate of return produces the greater average base period net income under this subsection. If the amount computed under this subparagraph is computed by the use of the rate of return specified in clause (i), the amount so computed shall be reduced by an amount equal to such portion of the total interest paid or incurred by the taxpayer, for the period of 12 months following the close of its base period, as is attributable to its television broadcasting business.

"(C) By adding the amount computed under subparagraph (B) to the amount, if any, computed under subparagraph (A).

"(3) COMMENCING TELEVISION BROADCASTING AFTER BASE PERIOD AND BEFORE 1951.—If the taxpayer acquires its television broadcasting business after the close of its base period and before January 1, 1951, the average base period net income computed under this paragraph shall be computed as provided in paragraph (2), except that—

"(A) the applicable rate of return under paragraph (2) (B) shall be multiplied by such part of its total assets (as defined in section 442 (f)), for the last day of the calendar month in which it first engaged in such business, as was attributable to such business, and

"(B) the reduction specified in the last sentence of paragraph (2) (B) shall, if applicable, be equal to such portion of the total interest paid or incurred by the taxpayer, for the period of 12 months following the month in which it first engaged in such business, as is attributable to such business.

"(4) INDIVIDUAL RATE OF RETURN.—The individual rate of return shall be computed as follows:

"(A) By determining the amount of the taxpayer's total assets (as defined in section 442 (f) attributable to the business of radio broadcasting for the last day of each month in its base period.

"(B) By computing the aggregate of the amounts ascertained under subparagraph (A) and dividing by 48.

"(C) By computing for each month in the base period the excess profits net income of the radio broadcasting business (determined without regard to income, deductions, losses, or other items attributable to any other business), by adding such amounts for all of the months in the base period, and by dividing by 4.

"(D) By dividing the amount computed under subparagraph (C) by the amount computed under subparagraph (B).

"(5) RULES FOR APPLICATION OF SUBSECTION.—

"(A) For the purpose of section 435 (a) (1) (B), an average base period net income determined under this subsection shall be considered an average base period net income determined under section 435 (d); but, in computing the base period capital addition under section 435 (f), the computations under such section shall be adjusted, under regulations prescribed by the Secretary, so as to exclude therefrom items attributable to the television broadcasting business.

"(B) If any part of the total assets referred to in paragraph (2) (B) or paragraph (3) (A), whichever is applicable, were acquired, directly or indirectly, through the use of assets attributable at any time during the base period to a business of the taxpayer other than television broadcasting, the amount determined under paragraph (2) (A) shall be properly adjusted by eliminating from the excess profits net income (computed for the purpose of paragraph (2) (A)) for each month prior to such acquisition such portion thereof as is attributable to the assets used, directly or indirectly, for such acquisition. For the purpose of this subparagraph, the excess profits net income for any month shall be attributed to such assets on the basis of the ratio, as of the beginning of the day of the acquisition, of such assets to total assets (as defined in section 442 (f)) determined without regard to assets attributable to the television broadcasting business.

"(C) The Secretary shall by regulations prescribe rules for the application of this subsection, including rules for the computation of the taxpayer's net capital addition or reduction.

"(6) APPLICATION OF PART II.—The Secretary shall prescribe regulations for the application of Part II for the purpose of this subsection in the case of an acquiring corporation or a component corporation in a transaction described in section 461 (a) which occurred prior to January 1, 1951.

"(e) BASIS OF ASSETS.—For the purposes of this section, any reference to the adjusted basis of property or to the basis (unadjusted) of property means the adjusted basis or the basis (unadjusted), as the case may be, for determining gain upon sale or exchange."

SEC. 520. INCREASE IN CAPACITY FOR PRODUCTION OR OPERATION.

Section 444 (f) (relating to increase in capacity for production or operation) is hereby amended to read as follows:

"(f) RULES FOR APPLICATION OF SECTION.—"

"(1) The benefits of this section shall not be allowed unless the taxpayer makes application therefor in accordance with section 447 (e).

"(2) If, during its first taxable year ending after June 30, 1950, the taxpayer completed construction of (including the installation of the machinery or equipment for use in) a factory building or other manufacturing establishment, such factory building or other manufacturing establishment and such machinery or equipment shall, for the purpose of determining whether there is an increase in capacity under the provisions of subsection (b), be considered to have been added to its total facilities on the last day of its base period if—

"(A) the taxpayer, prior to the end of its base period, had completed construction work representing more than 40 per centum of the total cost of construction of such factory building or other manufacturing establishment, and

"(B) the completion of such factory building or other manufacturing establishment was in pursuance of a plan to which the taxpayer was committed prior to the end of its base period.

This paragraph shall not apply in determining the amount of the taxpayer's total assets for the purpose of subsection (c)."

SEC. 521. EXCESS PROFITS CREDIT BASED ON INCOME IN CONNECTION WITH CERTAIN TAXABLE ACQUISITIONS.

(a) GENERAL RULE.—Subchapter D (relating to the excess profits tax) of chapter 1 is hereby amended by inserting immediately following section 472 the following new part:

"Part IV—Excess Profits Credit Based on Income in Connection With Certain Taxable Acquisitions Occurring Prior to December 1, 1950.

"SEC. 474. EXCESS PROFITS CREDIT BASED ON INCOME—CERTAIN TAXABLE ACQUISITIONS.

"(a) DEFINITIONS.—For the purpose of this part—

"(1) PURCHASING CORPORATION.—The term 'purchasing corporation' means a corporation which, before December 1, 1950, acquired—

"(A) In a transaction other than a transaction described in section 461 (a), substantially all of the properties (other than cash) of another corporation, of a partnership, or of a business owned by a sole proprietorship; or

"(B) Properties of another corporation or of a partnership if (i) such properties constituted, immediately prior to the acquisition, substantially all of the properties (other than cash) of one or more separate businesses of such other corporation or such partnership, (ii) such other corporation or such partnership was engaged in one or more separate businesses other than those described in clause (i), and (iii) substantially all of the properties (other than cash) of such other corporation or such partnership were acquired, in furtherance of a single plan of complete liquidation for such other corporation or such partnership, by the purchasing corporation, and by one or more other persons, in transactions other than transactions described in section 461 (a).

"(2) SELLING CORPORATION.—The term 'selling corporation' means a corporation, a partnership, or a business owned by a sole proprietorship, as the case may be, properties of which were acquired by a purchasing corporation in a transaction described in paragraph (1).

"(3) PART IV TRANSACTION.—The term 'part IV transaction' means a transaction described in paragraph (1).

"(b) AVERAGE BASE PERIOD NET INCOME OF PURCHASING CORPORATION.—The average base period net income of a purchasing corporation, if computed with reference to this part, shall be determined under section 435 (d). The average base period net income under section 435 (d) of a purchasing corporation shall be determined by computing its excess profits net income either with or without reference to this part, whichever produces the lesser tax under this subchapter for the taxable year for which the tax is being computed. If computed with reference to this part, the excess profits net income of a purchasing corporation for any month of its base period shall be its excess profits net income (or deficit therein), computed without reference to this part, and increased or decreased, as the case may be, by the addition or reduction resulting from including—

"(1) In the case of a transaction described in subsection (a) (1) (A), the excess profits net income (or deficit therein) for such month of the selling corporation, or

"(2) In the case of a transaction described in subsection (a) (1) (B), the excess profits net income (or deficit therein) for such month of the selling corporation properly attributable to the business or businesses acquired by the purchasing corporation and properly allocable to such purchasing corporation.

The excess profits net income of a purchasing corporation for any month, recomputed as provided in the previous sentence, shall not be less than zero.

"(c) **LIMITATIONS.**—This part shall apply only if each of the following conditions is satisfied:

"(1) The selling corporation (A) did not, after the part IV transaction (or the last transaction described in subsection (a) (1) (B)), continue any business activities other than those incident to its complete liquidation, and (B) within a reasonable time after ceasing business activities, completely liquidated in a transaction other than a transaction described in section 461 (a), and ceased existence.

"(2) During so much of the base period of the purchasing corporation and of the period thereafter as preceded the part IV transaction, the properties acquired in the part IV transaction were substantially all of the properties (other than cash) which were used, or which in the ordinary course of business replaced properties used, by the selling corporation (or by a component corporation, as defined in section 461 (b), of such selling corporation) in the production of the excess profits net income (or deficit therein) which under subsection (b) increases or decreases the excess profits net income of the purchasing corporation. For the purpose of this paragraph, if a business in the hands of both the selling corporation and the purchasing corporation was operated under a substantially identical franchise or license, granted by the same person, such franchise or license shall be deemed acquired by the purchasing corporation from the selling corporation.

"(3) The business or businesses acquired in the part IV transaction (including the properties so acquired or properties in replacement thereof) were operated by the purchasing corporation from the date of such transaction to the end of the taxable year or were transferred during the taxable year by the purchasing corporation in a part II transaction to which the provisions of section 462 (b) (4) are applicable.

"(d) **SPECIAL RULES.**—

"(1) For the purpose of subsection (a) (1), the properties of a selling corporation shall be considered to have been acquired by a purchasing corporation only if acquired from—

"(A) such selling corporation, or

"(B) persons who received the properties upon the liquidation of such selling corporation and who forthwith transferred such properties to the purchasing corporation in a transaction other than a transaction described in section 461 (a).

"(2) The computations required by this part in the case of a selling corporation which is a partnership or a business owned by a sole proprietorship shall be made, under regulations prescribed by the Secretary, as if such partnership or such business owned by a sole proprietorship had been a corporation.

"(3) In no case shall more than 100 per centum of the excess profits net income (or deficit therein) for any month of a selling corporation be allocated to the purchasing corporation or, in the case of transactions described in subsection (a) (1) (B), to the several persons (or to any one or more of such persons) receiving the properties of such selling corporation in such transactions.

"(e) **SUCCESSIVE TRANSACTIONS.**—

"(1) **PART IV TRANSACTION FOLLOWING PART IV TRANSACTION.**—In the case of a selling corporation which was a purchasing corporation in a previous part IV transaction, or which acquired properties of a purchasing corporation in a transaction to which section 462 (b) (4) is applicable, the computations under this part

with respect to the selling corporation shall be made without regard to the previous part IV transaction.

"(2) PART IV TRANSACTION FOLLOWING PART II TRANSACTION.—Subject to the provisions of paragraph (1), in the case of a selling corporation which was an acquiring corporation as defined in section 461 (a) in a previous transaction, its excess profits net income (or deficit therein) which increases or decreases the excess profits net income (or deficit therein) of the purchasing corporation under subsection (b) (1) or (2), and its capital changes which are taken into account under this part in determining the capital changes of the purchasing corporation, shall be determined with the application of the rules of part II to such selling corporation with respect to the part II transaction.

"(3) PART II TRANSACTION FOLLOWING PART IV TRANSACTION.—For rules applicable in the case of a part II transaction following a part IV transaction, see sections 462 (b) (4), 463 (c), and 464 (c).

"(f) REGULATIONS.—The Secretary shall by regulations prescribe rules for the application of this part. Such regulations shall include the following rules:

"(1) BASE PERIOD CAPITAL ADDITION.—Rules (consistent with the principles of section 464) for the determination of the base period capital addition of the purchasing corporation by reference to the capital changes of the selling corporation and of the purchasing corporation.

"(2) NET CAPITAL ADDITION OR REDUCTION.—Rules (consistent with the principles of section 463) for the determination of the net capital addition or reduction of the purchasing corporation by reference to the capital changes of the selling corporation and of the purchasing corporation.

"(3) EXCESS PROFITS NET INCOME.—Rules (consistent with the principles of section 462 (i)) for the determination of the amount of excess profits net income (or deficit therein) of the selling corporation attributable to the business or businesses acquired by a purchasing corporation in a transaction described in subsection (a) (1) (B) and properly allocable to such purchasing corporation.

"(4) DUPLICATION.—Rules for the application under this part of the principles of section 462 (j) (1) and the other provisions of part II relating to the prevention of duplication.

"(5) EXCESS PROFITS CREDIT.—In the event that the part IV transaction occurred in a taxable year of the purchasing corporation which ended after June 30, 1950, rules (consistent with the principles of section 462 (j) (2)) for the determination of the excess profits credit of such corporation for the year in which the transaction occurred.

Such rules shall not include the principles of section 461 (c) (relating to the excess profits credit of the component corporation), of section 462 (b) (2) (relating to constructive excess profits net income for months during which a corporation was not in existence), of section 462 (1) (relating to minimum average base period net income in the case of certain acquiring corporations), or of such other provisions of part II as relate to sections 435 (e), 442, 443, 444, 445, or 446."

(b) TECHNICAL AMENDMENTS.—

(1) Section 435 (a) (3) (relating to amount of excess profits credit) is hereby amended by inserting before the period at the end thereof the following: ", and in the case of certain taxable acquisitions, see part IV of this subchapter".

(2) Section 461 (relating to definitions under part II) is amended by inserting at the end thereof the following new subsections:

"(g) COMPONENT CORPORATION WHICH WAS A PURCHASING CORPORATION IN A PREVIOUS TRANSACTION.—See section 462 (b) (4) for rules applicable if the component corporation was a purchasing corporation (as defined in part IV) in a previous part IV transaction, or if (as an acquiring corporation in a previous part II transaction) it was subject to the provisions of section 462 (b) (4).

"(h) DEFINITION OF PART II TRANSACTION.—For the purpose of this subchapter, the term 'part II transaction' means a transaction described in section 461 (a)."

(3) Section 462 (b) (relating to the method of recomputing the excess profits net income of an acquiring corporation under part II) is hereby amended by adding at the end thereof the following new paragraph:

"(4) If the average base period net income of the acquiring corporation is determined under section 435 (d) with reference to this subsection, and if the provisions of section 474 (b) (relating to the computation of excess profits net income in the case of certain purchasing corporations) were applicable to the component corporation immediately prior to the part II transaction (or would have been applicable if such part II transaction had occurred in a taxable year of the component corporation ending after June 30, 1950), then the excess profits net income (or deficit therein) of the component corporation shall, for the purpose of this subsection, be determined with the application of the provisions of section 474 (b). For the purpose of this paragraph, if a component corporation was an acquiring corporation in a previous part II transaction and, immediately prior to the later part II transaction, the provisions of this paragraph were applicable to such component corporation, its excess profits net income (or deficit therein) shall be determined with the application of the provisions of the preceding sentence. This paragraph shall be applicable to an acquiring corporation only if—

"(A) the properties acquired by the acquiring corporation from the component corporation include substantially all of the properties (other than cash), or properties acquired in the ordinary course of business in the replacement of properties, which the component corporation acquired either from the selling corporation in the part IV transaction or from a previous component corporation subject (immediately prior to such acquisition) to the provisions of this paragraph;

"(B) the business or businesses acquired by the acquiring corporation were operated by the acquiring corporation from the date of such transaction to the end of the taxable year or were transferred during the taxable year by the acquiring corporation in a part II transaction to which the provisions of this paragraph are applicable; and

"(C) in the event that the part II transaction is one described in section 461 (a) (1) (E), the provisions of section 462 (i) (6) are satisfied."

(4) Section 462 (i) (6) (relating to allocation rules in the case of transactions described in section 461 (a) (1) (E)) is hereby amended by adding at the end thereof the following: "Notwithstanding the provisions of paragraph (1), if an acquiring corporation in a transaction described in section 461 (a) (1) (E) determines its average base period net income under section 435

(d) by recomputing its excess profits net income under the provisions of section 462 (b) (4), the amount of the component corporation's excess profits net income for any month which shall be taken into account by the acquiring corporation shall be such portion of the component corporation's excess profits net income for such month as is determined on the basis of the earnings experience of the assets transferred and the assets retained by the component corporation."

(5) Section 463 (relating to capital changes) is amended by inserting at the end thereof the following new subsection:

"(e) COMPONENT CORPORATION WHICH WAS A PURCHASING CORPORATION IN A PREVIOUS TRANSACTION.—The Secretary shall provide by regulations for the application of this section in cases to which section 462 (b) (4) is applicable."

(6) Section 464 (relating to capital changes during the base period) is amended by inserting at the end thereof the following new subsection:

"(c) The Secretary shall provide by regulation for the application of this section in cases to which section 462 (b) (4) is applicable."

SEC. 522. STRATEGIC MINERALS.

Section 450 (b) (1) (relating to corporations engaged in mining of strategic minerals) is hereby amended by inserting after "chromite," the following: "bauxite,".

SEC. 523. EFFECTIVE DATE OF TITLE V.

Except as otherwise provided in section 506 (d), the amendments made by this title shall be applicable only with respect to taxable years ending after June 30, 1950.

TITLE VI—MISCELLANEOUS PROVISIONS AND AMENDMENTS

SEC. 601. EXEMPTION OF CERTAIN ORGANIZATIONS FROM INCOME TAX FOR PRIOR TAXABLE YEARS.

Section 302 of the Revenue Act of 1950 (relating to exemption of certain organizations for past years) is amended by adding at the end thereof the following new subsection:

"(d) PROFITS INURING TO THE BENEFIT OF CERTAIN EDUCATIONAL ORGANIZATIONS OR HOSPITALS.—For any taxable year beginning prior to January 1, 1951, an organization operated for the primary purpose of carrying on a trade or business for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual and all of the net earnings of which inure to the benefit of an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on, or to the benefit of a hospital, or an institution for the rehabilitation of physically handicapped persons, which maintains or is building for proper maintenance a hospital or institution staffed or to be staffed by qualified professional persons for the treatment of the sick and/or the rehabilitation of the physically handicapped, shall not be denied exemption from taxation under section 101 of the Internal Revenue Code on the ground that it is carrying on a trade or business for profit. The determination as to whether an organization other than one described in this subsection is exempt under section 101 of the Internal Revenue Code from taxation for any taxable year beginning before January 1, 1951, shall be made as if this

Pub. Law 183

-112-

subsection and section 301 (b) of this Act had not been enacted and without inferences drawn from the fact that this subsection and the amendment made by section 301 (b) are not expressly made applicable with respect to taxable years beginning before January 1, 1951."

SEC. 602. EXCESS PROFITS CREDIT BASED ON INCOME.

(a) PERCENTAGE OF AVERAGE BASE PERIOD NET INCOME TAKEN INTO ACCOUNT.—

(1) **IN GENERAL.**—Paragraph (1) (A), and paragraph (2), of section 435 (a) (relating to excess profits credit based on income) are each amended by striking out "85 per centum" and inserting in lieu thereof "83 per centum".

(2) **TAXABLE YEARS BEGINNING BEFORE JULY 1, 1951, AND ENDING AFTER JUNE 30, 1951.**—Section 435 (a) is hereby amended by adding at the end thereof the following new paragraphs:

"(4) **CALENDAR YEAR 1951.**—In the case of a taxable year beginning on January 1, 1951, and ending on December 31, 1951, there shall be used, for the purposes of paragraph (1) (A) and paragraph (2), in lieu of 85 per centum of the average base period net income, an amount equal to 84 per centum of the average base period net income.

"(5) **TAXABLE YEARS (OTHER THAN CALENDAR YEAR 1951) BEGINNING BEFORE JULY 1, 1951, AND ENDING AFTER JUNE 30, 1951.**—In the case of any taxable year (other than a taxable year described in paragraph (4)) beginning before July 1, 1951, and ending after June 30, 1951, there shall be used, for the purposes of paragraph (1) (A) and paragraph (2), in lieu of 85 per centum of the average base period net income, an amount equal to the sum of—

"(A) that portion of an amount equal to 85 per centum of the average base period net income which the number of days in such taxable year prior to July 1, 1951, bears to the total number of days in such taxable year, plus

"(B) that portion of an amount equal to 83 per centum of the average base period net income which the number of days in such taxable year after June 30, 1951, bears to the total number of days in such taxable year."

(b) **EFFECTIVE DATE.**—The amendments made by subsection (a) shall be applicable only with respect to taxable years ending after June 30, 1951.

SEC. 603. FOREIGN ESTATE TAX CREDIT.

(a) **CREDIT AGAINST BASIC ESTATE TAX.**—Section 813 (relating to credits against estate tax) is hereby amended by adding at the end thereof the following new subsection:

"(c) **SAME—PAID TO FOREIGN COUNTRIES.**—

"(1) **IN GENERAL.**—The tax imposed by section 810 shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any foreign country in respect of any property situated within such foreign country and included in the gross estate (not including any such taxes paid with respect to the estate of a person other than the decedent). If the decedent at the time of his death was not a citizen of the United States, credit shall not be allowed under this subsection unless the foreign country of which such decedent was a citizen or subject, in imposing such taxes, allows a similar credit in the case of a citizen of the United States resident in such country. The determination of the country within which property is situated shall be made in accordance with the rules applicable under

Part III of this subchapter in determining whether property is situated within or without the United States.

"(2) **LIMITATIONS ON CREDIT.**—The credit provided in this subsection with respect to such taxes paid to any foreign country—

"(A) shall not, with respect to any such tax, exceed an amount which bears the same ratio to the amount of such tax actually paid to such foreign country as the value of property which is—

"(i) situated within such foreign country,

"(ii) subjected to such tax, and

"(iii) included in the gross estate

bears to the value of all property subjected to such tax; and

"(B) shall not, with respect to all such taxes, exceed an amount which bears the same ratio to the tax imposed by section 810 (after deducting from such tax the credits provided by subsections (a) and (b) of this section) as the value of property which is—

"(i) situated within such foreign country,

"(ii) subjected to the taxes of such foreign country,

and

"(iii) included in the gross estate

bears to the value of the entire gross estate reduced by the aggregate amount of the deductions allowed under subsections (c), (d), and (e) of section 812.

"(3) **VALUATION OF PROPERTY.**—

"(A) The values referred to in the ratio stated in paragraph (2) (A) are the values determined for the purposes of the tax imposed by such foreign country.

"(B) The values referred to in the ratio stated in paragraph (2) (B) are the values determined under this chapter; but, in applying such ratio, the value of any property described in clauses (i), (ii), and (iii) thereof shall be reduced by such amount as will properly reflect, in accordance with regulations prescribed by the Secretary, the deductions allowed in respect of such property under subsections (c), (d), and (e) of section 812.

"(4) **PROOF OF CREDIT.**—The credits provided in this subsection and in section 936 (c) shall be allowed only if the taxpayer establishes to the satisfaction of the Secretary (A) the amount of taxes actually paid to the foreign country, (B) the amount and date of each payment thereof, (C) the description and value of the property in respect of which such taxes are imposed, and (D) all other information necessary for the verification and computation of the credits.

"(5) **PERIOD OF LIMITATION.**—The credits provided in this subsection and in section 936 (c) shall be allowed only for such taxes as were actually paid and credit therefor claimed within four years after the filing of the return required by section 821, except that—

"(A) If a petition for redetermination of a deficiency has been filed with The Tax Court of the United States within the time prescribed in section 871, then within such four-year period or before the expiration of 60 days after the decision of The Tax Court becomes final.

"(B) If, under section 822 (a) (2) or section 871 (h), an extension of time has been granted for payment of the tax shown on the return, or of a deficiency, then within such four-year period or before the date of the expiration of the period of the extension.

Refund based on such credits may (despite the provisions of sections 910 to 912, inclusive) be made if claim therefor is filed within the period above provided. Any such refund shall be made without interest."

(b) CREDIT AGAINST ADDITIONAL ESTATE TAX.—Section 936 (relating to credits against estate tax) is hereby amended by adding at the end thereof the following new subsection:

"(c) ESTATE, ETC., TAXES PAID TO FOREIGN COUNTRIES.—

"(1) IN GENERAL.—In the case of the estate of a citizen or resident of the United States, the tax imposed by section 935 shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any foreign country in respect of any property situated within such foreign country and included in the gross estate (not including any such taxes paid with respect to the estate of a person other than the decedent). If the decedent at the time of his death was not a citizen of the United States, credit shall not be allowed under this subsection unless the foreign country of which such decedent was a citizen or subject, in imposing such taxes, allows a similar credit in the case of a citizen of the United States resident in such country. The determination of the country within which property is situated shall be made in accordance with the rules applicable under Part III of subchapter A in determining whether property is situated within or without the United States.

"(2) LIMITATIONS ON CREDIT.—The credit provided in this subsection with respect to such taxes paid to any foreign country—

"(A) shall not exceed the amount by which such taxes paid to the foreign country exceed the amount of the credit allowed therefor under section 813 (c); and

"(B) shall not exceed an amount which bears the same ratio to the tax imposed by section 935 (after deducting from such tax the credit provided by subsection (b) of this section) as the value of property which is—

"(i) situated within such foreign country,

"(ii) subjected to the taxes of such foreign country, and

"(iii) included in the gross estate bears to the value of the entire gross estate reduced by the aggregate amount of the deductions allowed under subsections (c), (d), and (e) of section 812.

"(3) SAME—SPECIAL RULES.—

"(A) For the purposes of paragraph (2) (A), 'such taxes paid to the foreign country' shall, with respect to any tax paid to the foreign country, be the amount computed under section 813 (c) (2) (A).

"(B) The values referred to in the ratio stated in paragraph (2) (B) are the values determined under this chapter; but, in applying such ratio, the value of any property described in clauses (i), (ii), and (iii) thereof shall be reduced by such amount as will properly reflect, in accordance with regulations prescribed by the Secretary, the deductions allowed in respect of such property under subsections (c), (d), and (e) of section 812.

"(4) PROOF OF CREDIT.—

"For provisions relating to proof of credit, see section 813 (c) (4).

"(5) PERIOD OF LIMITATION.—

"For provisions relating to period of limitation on claiming

of credit or refund based thereon and nonpayment of interest on refund, see section 813 (c) (5)."

(c) **REVERSIONARY OR REMAINDER INTEREST.**—Section 927 (relating to credit for State death taxes) is hereby amended to read as follows:

"SEC. 927. CREDIT FOR DEATH TAXES.

"Such part of any estate, inheritance, legacy, or succession taxes allowable as a credit under section 813 (b) or (c) against the tax imposed by this subchapter, or under section 936 (c) against the tax imposed by subchapter B, as is attributable to such reversionary or remainder interest may be allowed as a credit against the tax attributable to such interest, subject to the limitations on the amount of credit contained in such sections, if such part is paid, and credit therefor claimed, at any time prior to the expiration of 60 days after the termination of the precedent interest or interests in the property."

(d) **EXTENSION OF PERIOD OF LIMITATIONS, ETC., IN CASE OF RECOVERY OF TAXES CLAIMED AS CREDIT.**—Section 874 (b) (relating to exceptions to general rule as to period of limitation upon assessment and collection of estate tax) is hereby amended by inserting at the end thereof the following new paragraph:

"(3) **RECOVERY OF TAXES CLAIMED AS CREDIT.**—If any tax claimed as a credit under section 813 (b) or (c) or section 936 (c) is recovered from any foreign country, any State, any Territory or possession of the United States, or the District of Columbia, the executor, or any other person or persons recovering such amount, shall give notice of such recovery to the Secretary at such time and in such manner as may be required by regulations prescribed by him, and the Secretary shall redetermine the amount of the tax under this chapter and the amount, if any, of the tax due upon such redetermination, shall be paid by the executor or such person or persons, as the case may be, upon notice and demand."

(e) **EFFECTIVE DATE.**—The amendments made by this section shall be applicable with respect to estates of decedents dying after the date of the enactment of this Act.

SEC. 604. ESTATE AND GIFT TAX TREATMENT OF UNITED STATES BONDS HELD BY CERTAIN NONRESIDENT ALIENS.

(a) **ESTATE TAX.**—Effective with respect to estates of decedents dying after February 10, 1939, section 861 (relating to the computation of the net estate of a decedent nonresident not a citizen of the United States) is hereby amended by adding at the end thereof the following new subsection:

"(c) **UNITED STATES BONDS.**—For the purposes of subsection (a), the value of the gross estate (determined as provided in section 811) of a decedent who was not engaged in business in the United States at the time of his death—

"(1) shall not include obligations issued by the United States prior to March 1, 1941; and

"(2) shall include obligations issued by the United States on or after March 1, 1941, but only if the decedent died after the date of the enactment of the Revenue Act of 1951."

(b) **GIFT TAX.**—Effective with respect to gifts made after the date of enactment of this Act, section 1000 (b) (relating to application of gift tax) is hereby amended by adding at the end thereof the following: "In the case of such a nonresident who is not engaged in business in the United States at the time of a transfer of obligations issued by the United States, the tax shall apply in respect of any such obligations only if issued on or after March 1, 1941."

Pub. Law 183

- 116 -

SEC. 605. ESTATE TAX EXEMPTION FOR WORKS OF ART LOANED BY NONRESIDENT ALIENS.

(a) **AMENDMENT OF SECTION 863 (c).**—Section 863 (c) (relating to exemption of works of art loaned by nonresident aliens) is hereby amended to read as follows:

“(c) **WORKS OF ART ON LOAN FOR EXHIBITION.**—Works of art owned by a nonresident not a citizen of the United States (1) imported into the United States solely for exhibition purposes, (2) loaned for such purposes to a public gallery or museum, no part of the net earnings of which inures to the benefit of any private stockholder or individual, and (3) at the time of the death of the owner, on exhibition, or en route to or from exhibition, in such a public gallery or museum.”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall be applicable only with respect to estates of decedents dying after the date of the enactment of this Act.

SEC. 606. EXEMPTION FROM ADDITIONAL ESTATE TAX OF MEMBERS OF ARMED FORCES UPON DEATH.

Section 939 (relating to the estate tax treatment of certain members of the armed forces) is hereby amended as follows:

(1) By inserting before the first sentence thereof the following:

“(a) **DEATHS AFTER DECEMBER 6, 1941, AND BEFORE JANUARY 1, 1947.**—”

(2) By adding at the end thereof the following:

“(b) **DEATHS AFTER JUNE 24, 1950, AND BEFORE JANUARY 1, 1954.**—The tax imposed by section 935 shall not apply to the transfer of the net estate of a citizen or resident of the United States dying after June 24, 1950, and before January 1, 1954, while in active service as a member of the armed forces of the United States, if such decedent—

“(1) was killed in action while serving in a combat zone, as determined under section 22 (b) (13); or

“(2) died as a result of wounds, disease, or injury suffered, while serving in a combat zone (as determined under section 22 (b) (13)) and while in line of duty, by reason of a hazard to which he was subjected as an incident of such service.”

SEC. 607. TRANSFERS CONDITIONED UPON SURVIVORSHIP.

In the case of property transferred by a decedent dying after March 18, 1937, and before February 11, 1939, the determination of whether such property is to be included in his gross estate under section 302 (c) of the Revenue Act of 1926 (44 Stat. 70) as a transfer intended to take effect in possession or enjoyment at or after his death shall be made in conformity with Treasury Regulations in force at the time of his death.

SEC. 608. TRANSFERS WITH INCOME RESERVED.

Section 7 (b) of the Act entitled “An Act to amend certain provisions of the Internal Revenue Code”, approved October 25, 1949 (63 Stat. 895), is hereby amended by striking out “January 1, 1950” and inserting in lieu thereof “January 1, 1951”.

SEC. 609. TRANSFERS TAKING EFFECT AT DEATH.

Effective with respect to estates of decedents dying after February 10, 1939, section 7 (b) of the Act entitled “An Act to amend certain provisions of the Internal Revenue Code”, approved October 25, 1949 (63 Stat. 895), is hereby amended by striking out the word “sentence” and inserting in lieu thereof “two sentences” and by inserting immediately preceding the last sentence thereof the following sentence: “The provisions of section 811 (c) (1) (C) of such code shall not apply to a transfer made prior to September 8, 1916.” The

provisions of section 7 (c) of such Act, as amended, shall not apply to an overpayment resulting from the application of this section.

SEC. 610. REVERSIONARY INTERESTS IN CASE OF LIFE INSURANCE.

If refund or credit of any overpayment resulting from the application of section 503 of the Revenue Act of 1950 was prevented on October 25, 1950, by the operation of any law or rule of law (other than section 3760 of the Internal Revenue Code, relating to closing agreements, and other than section 3761 of such code, relating to compromises), refund or credit of such overpayment may, nevertheless, be made or allowed if claim therefor was filed after October 25, 1949, and on or before October 25, 1950.

SEC. 611. INCOME PURSUANT TO AWARD OF INTERSTATE COMMERCE COMMISSION.

(a) Notwithstanding section 42 of the Internal Revenue Code, amounts received, pursuant to an award under the order issued under the Railway Mail Pay Act of 1916 by the Interstate Commerce Commission on December 4, 1950, as compensation for the transportation of mail during 1950 and prior years shall be deemed to be income which accrued in the taxable years in which the services to which such compensation relates were rendered. Notwithstanding section 292 of such code, no interest shall be assessed or collected for any period prior to July 1, 1951, with respect to that part of any deficiency which the Secretary determines to be attributable to the inclusion of income in a taxable year by reason of the application of this section. Any deficiency attributable to the inclusion of income in any taxable year by reason of the application of this section may be assessed at any time prior to the expiration of the period for assessment with respect to the taxable year of the taxpayer which includes December 4, 1950, notwithstanding the provisions of section 275 of the Internal Revenue Code or any other provision of law or rule of law which would otherwise prevent such assessment.

(b) Section 292 (relating to interest on deficiencies) is hereby amended by adding at the end thereof the following new subsection:

"(d) With respect to any corporation entitled to receive payment for the transportation of United States mail, if an award is retroactively received for the transportation of United States mail, and if such award is required to be treated as income in the year or years in which the mail was carried, then, notwithstanding the provisions of subsection (a) of this section, no interest shall be due, with respect to any period prior to thirty days after such award is granted, for tax deficiencies resulting from the inclusion of such additional mail payments retroactively."

SEC. 612. CREDIT IN PRIOR TAXABLE YEARS FOR DIVIDENDS RECEIVED ON PREFERRED STOCK OF A PUBLIC UTILITY.

In the case of taxable years beginning before April 1, 1951, any reference in section 15 (a) or 26 (b) of the Internal Revenue Code to dividends received on the preferred stock of a public utility shall be construed as referring only to dividends received on the preferred stock of a public utility with respect to which the credit provided in section 26 (h) of such Code for dividends paid was allowable.

SEC. 613. CONSOLIDATED RETURNS—INCLUDIBLE CORPORATION.

If an affiliated group making a consolidated return with respect to the first taxable year of the group ending after June 30, 1950, included a corporation described in section 454 (f) of the Internal Revenue Code pursuant to the consent provided in section 141 (e) (7) of such code, such corporation may withdraw such consent at any time within

Pub. Law 183

-118-

ninety days after the enactment of this Act. If such consent is withdrawn under the preceding sentence, the tax liability of the affiliated group and its several members for the taxable year shall be determined, assessed, and collected as if such corporation had never joined in the making of the consolidated return.

SEC. 614. TIME FOR PERFORMING CERTAIN ACTS POSTPONED IN CASE OF CHINA TRADE ACT CORPORATIONS.

Section 3805 (relating to postponement of income tax due dates in the case of China Trade Act corporations) is hereby amended to read as follows:

"SEC. 3805. INCOME TAX DUE DATES POSTPONED IN CASE OF CHINA TRADE ACT CORPORATIONS.

"In the case of any taxable year beginning after December 31, 1948, and ending before October 1, 1953, no Federal income tax return of, or payment of any Federal income tax by, any corporation organized under the China Trade Act of 1922 (42 Stat. 849, U. S. C., Title 15, chapter 4), as amended, shall become due until December 31, 1953, but only with respect to any such corporation and any such taxable year which the Secretary may determine reasonable under the circumstances in China pursuant to such regulations as he may prescribe. Such due date shall be subject to the power of the Secretary to extend the time for filing such return or paying such tax, as in other cases."

SEC. 615. TREATY OBLIGATIONS.

No amendment made by this Act shall apply in any case where its application would be contrary to any treaty obligation of the United States.

SEC. 616. REORGANIZATION PLAN NUMBERED 26 OF 1950.

The provisions of Reorganization Plan Numbered 26 of 1950 shall be applicable to all functions vested by this Act in any officer, employee, or agency of the Department of the Treasury.

SEC. 617. CLAIMS UNDER THE RENEGOTIATION ACT.

Subsection (a) (4) (D) of the Renegotiation Act, as amended by section 201 (c) of the Renegotiation Act of 1951, is hereby amended by striking out "June 30, 1951," and inserting in lieu thereof "October 31, 1951,".

SEC. 618. PROHIBITION UPON DENIAL OF SOCIAL SECURITY ACT FUNDS.

No State or any agency or political subdivision thereof shall be deprived of any grant-in-aid or other payment to which it otherwise is or has become entitled pursuant to title I, IV, X, or XIV of the Social Security Act, as amended, by reason of the enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State, if such legislation prohibits the use of any list or names obtained through such access to such records for commercial or political purposes.

SEC. 619. REMOVAL OF TAX EXEMPTION FROM EXPENSE ALLOWANCES OF THE PRESIDENT, THE VICE PRESIDENT, THE SPEAKER, AND MEMBERS OF CONGRESS.

(a) **EXPENSE ALLOWANCE OF THE PRESIDENT.**—Section 102 of title 3 of the United States Code is amended by striking out "no tax liability shall accrue and for which no accounting shall be made by him" and inserting in lieu thereof "no accounting, other than for income tax purposes, shall be made by him".

(b) **EXPENSE ALLOWANCE OF THE VICE PRESIDENT.**—Section 111 of title 3 of the United States Code is amended by striking out “for which no tax liability shall occur or accounting be made by him” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made by him”.

(c) **EXPENSE ALLOWANCE OF THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.**—Subsection (e) of the first section of the Act entitled “An Act to increase rates of compensation of the President, Vice President, and the Speaker of the House of Representatives”, approved January 19, 1949 (Public Law 2, 81st Congress), is amended by striking out “for which no tax liability shall occur or accounting be made by him” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made by him”.

(d) **EXPENSE ALLOWANCES OF MEMBERS OF CONGRESS.**—Section 601 (b) of the Legislative Reorganization Act of 1946 is amended by striking out “for which no tax liability shall incur, or accounting be made” and inserting in lieu thereof “for which no accounting, other than for income tax purposes, shall be made”.

(e) **EFFECTIVE DATES.**—The amendments made by subsections (a) and (b) of this section shall become effective at noon on January 20, 1953, and the amendments made by subsections (c) and (d) shall become effective at noon on January 3, 1953.

Approved October 20, 1951.

2:07 p. m., E. S. T.

U. S. GOVERNMENT PRINTING OFFICE: 1951